

Options for Resource Allocation in the Green Climate Fund (GCF)
Possible Allocation Principles and Criteria - Adaptation
Background Paper 3

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The paper has been drafted as part of a compilation of background papers on possible options for resource allocation in the Green Climate Fund. The background papers were financially supported by the German Federal Ministry for Economic Cooperation and Development (BMZ) and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).

Disclaimer:

The views and opinions expressed in the paper reflect those of the author(s) and do not reflect the position of any institution.

Acknowledgement:

Thanks to Martina Jung and Marion Vieweg for contributions and critical review.

September 2013

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1 Introduction

The resource allocation framework will have to provide agreed principles and criteria for making transparent how decisions are taken on WHAT will be financed, while at the same time taking into account the guiding principles of the governing instrument.

The allocation framework described in this paper is based on the assumption that the allocation decisions with regard to concrete proposals are taken within the GCF based on agreed principles, priorities and criteria.¹ This should inspire confidence on the donor side enabling ambitious funding commitments, and confidence in host countries that the fund can make a difference and promote the envisaged paradigm shift. The allocation framework outlined in more detail in the next sections would allow room for the consideration of national priorities within the overall framework set by agreed principles and priorities.

2 Special considerations for adaptation

This section outlines a possible allocation mechanism for the adaptation component of the GCF during its first replenishment cycle. It is based on the assumption of a four-year replenishment cycle initially subscribed to a total of \$10billion. However, the numbers are open to further discussion and can readily be rescaled for greater amounts, either in the first or later replenishment cycles.

2.1 Categorisation of countries

The basic concept behind the categories here is to recognise the special needs of highly vulnerable, but often low capacity, countries by providing them with simplified access to guaranteed allocations, providing basic standards of project design and management are met. In this Special Consideration Category these standards should be similar to those of the Adaptation Fund, which has strong country ownership and some experience.

However, countries are encouraged to move to other categories as experience and capacity to design and manage larger projects increases. In the Transition Category countries will have access to larger resources, but with more rigorous requirements in design and an element of competition for the resources to encourage continual learning and improvement. If a country eligible for the Special Consideration Category elects to, and is successful in a proposal to the Transitional Category, it would usually remain in that category in future replenishment cycles.

The third, Transformational Category, is open to all countries with the ambition to deliver transformational (or paradigm) change. Making a proposal to this category does not preclude, or limit allocations to, that same country making submissions in the Transitional Category. Such submissions may be used for piloting larger more transformational plans.

Three elements might be taken into account in assessing allocations between countries. The first is a Needs and Capacity assessment embracing financial, technical and institutional capacities as well as population and size. The financial, technical and institutional capacities are largely taken into account by allowing countries to select between three allocation categories each requiring increasing capacities. Needs are greatly dependent on population size and options for scaling resources to population are discussed in Annex 4.

The second element is Current Performance, which may be assessed by the progress achieved, decisions taken, adaptation policies implemented etc. A checklist of appropriate plans, institutions, decisions could be drawn up, but the question will remain as to who assesses whether these items meet the necessary standard? For example, whether a NAP is adequate and sufficiently integrated in national development planning; whether it is socially equitable, etc.? Performance in other relevant funds also needs to be assessed to prevent resources being

¹ The latter would also be the case for direct access which would imply that proposals are submitted directly from the national level, but decisions on the proposals are still taken by the GCF Board.

parked and not absorbed, or that measures are financed that would have been financed anyway with a country’s own resources. There may also be a need to separate current readiness from recent performance as capacities can build quickly.

The third element is some form of Vulnerability Measure (including loss and damage risk). This will be a difficult and controversial path, but ultimately a relatively simple, pragmatic index/categorization (or set of indices according to country circumstances) can be designed. Perfection must not be the enemy of the good. The final index may be more akin to the Human Development Index, which has a relatively small set of metrics², rather than more complex vulnerability indices with a dozen or more metrics.

2.1.1 Special Consideration Category

In line with the governing instrument, at the beginning of the replenishment period, a portion of the resources of the adaptation window may be allocated ex-ante to “the urgent and immediate needs of developing countries that are particularly vulnerable to the adverse effects of climate change, including LDCs, SIDS and African States, using minimum allocation floors for these countries as appropriate.”³ The priority LDCs, SIDs and African states include 86 of the 153 signatories of the UNFCCC who are not Annex 1 parties of the Kyoto Protocol. Among the 86 countries are 7 High Income Countries and 21 Upper Middle Income Countries and vulnerabilities and capacities vary widely. Thus, guidelines or formulae for allocation within this block of countries will be necessary.

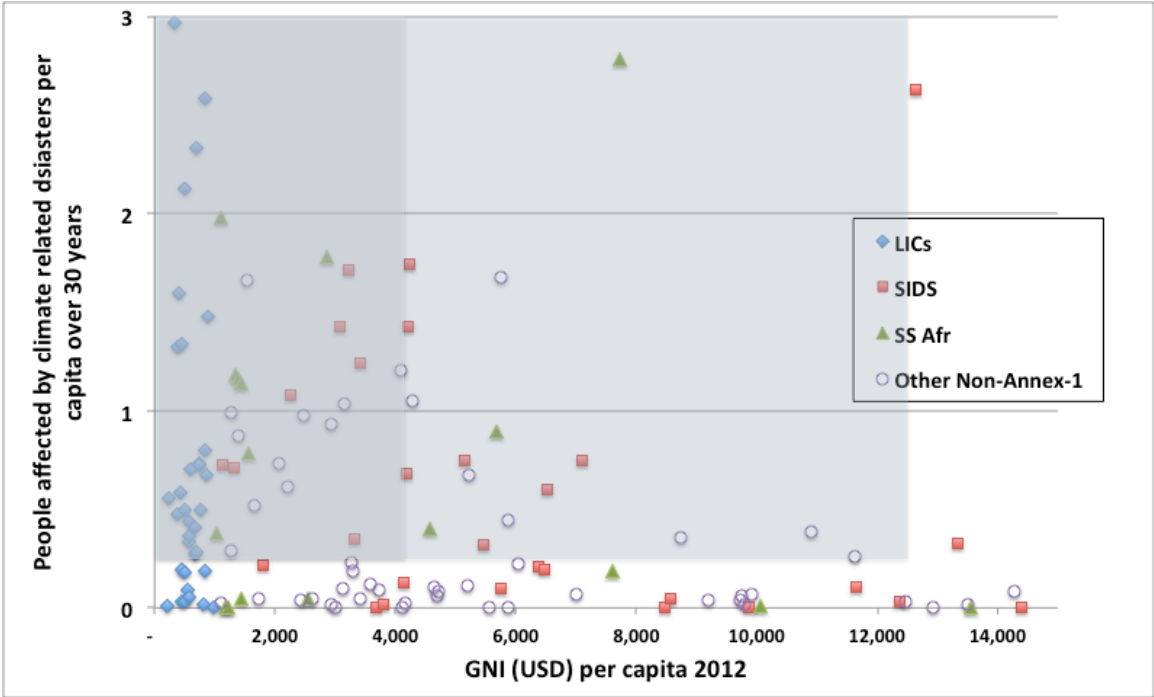


Figure 1: Relationship between impacts of recent climate disasters and income per capita. Countries not included in the GI for special consideration (circles) and falling in the high impact – low income zone (darker shading) may make a case for also being given special consideration.

There are also lower middle countries (LMICs) with existing high impacts for climate related disasters (Figure 1) that might also argue for similar consideration (the Governing Instrument does not imply that the priority list is exclusive to the blocks of countries mentioned). For

² Description of the HDI – warning about GDP/cap

³ Governing Instrument of the GCF, paragraph 52.

example, eleven LMICs have impacts from climate related disasters⁴ above the median level for non-Annex1 countries and may claim that they are 'particularly vulnerable'; they are India, Mongolia, Laos, Philippines, Sri Lanka, Vietnam, Honduras, Bolivia, Nicaragua, Pakistan and Georgia.

The Special Consideration Category it is likely to amount to at about 80 to 90 countries if, for example, the HIC Small Island States do not participate and a few additional LMICs seek to join this category.

In setting minimum allocations, the Board should note that over the past decade the average disbursement (not approvals) of funding for adaptation has averaged only \$10M in total per country with little difference across the several groups (LDCs, SIDS etc.). Only 25% of countries have disbursed more than \$10M over the decade and only four countries more than \$30M. These four are Niger (\$69M), Ethiopia, Pakistan and Mozambique, which suggests that there is a significant influence from multilateral implementing agencies. Since 2007 the average size of approved adaptation proposals has risen from about \$3.5M to about \$6M in 2012. If direct access is to be the most common route to financing under the GCF, it is clear that most countries in the Special Consideration category have little experience in dealing with the amounts of finance that might be considered. Many would need to manage portfolios up to an order of magnitude greater than in the recent past.

A possible model for a first four-year replenishment cycle of the GCF would be an allocation of \$20M per country with a minimum proposal size of \$5M (see Annex 1). NIEs or MIEs working through the national designated authority (NDA) could follow either a single or two-step approval process, with adaptation and performance criteria designed to be similar to those of the Adaptation Fund (e.g. proposals need only to have a primary focus on adaptation). Countries may also seek an initial allocation for proposal preparation of up to \$1M. A tranche of about \$1.5billion to \$2billion would be required to fund this category. Midway through the four-year replenishment cycle it would become clear as to how much of the total allocation is likely to be committed before the end of the replenishment cycle and any uncommitted funds allocated elsewhere; this may either be to meet requests from the Special Consideration Category Countries that exceed the \$20M, or to either of the other category allocations.

2.1.2 Transitional Category

All countries that are not included in the first Special Consideration Category will initially be included in this category; i.e. probably about 60 plus countries as some Special Consideration Category countries may select to operate within this category. Countries in this category do not have a minimum allocation, but are also able to make larger proposals that demonstrate stricter compliance with the broad goals of the GCF. These would include:

- Demonstration of integration of adaptation funding with national development spending, including external support;
- Stronger evidence for quantifiable benefits from the adaptation activities proposed;
- Evidence of the sustainability of the benefits of the proposal;
- Country performance in similar projects in the recent past

However, the proposals do not have to meet the stricter definitions of transformative change/paradigm shift, although they may be pilots leading to a future proposal meeting the transformative criteria.

⁴ Measured here as the number of people affected by climate related disasters per capita over the period 1978 to 2007.

Allocation – Option 1

This category would have both an upper limit on the total support a country receives per replenishment cycle and a minimum size of a proposal; countries can submit multiple proposals per replenishment cycle through their NDA. In this option there would be no differentiation in the upper limits to support based on either vulnerability or size (population, area or GDP). The upper limit might be \$100M per country per four-year replenishment cycle, with a minimum proposal size of \$20M. This would suggest a replenishment cycle for this category of about \$4billion and about 100 to 200 proposals coming to the Board over the four-year period. There would be an element of competition, both between proposals and across countries as the replenishment cycle is insufficient to guarantee all countries can receive the maximum quota.

Allocation – Option 2

It could be argued that it is discriminatory to apply the same caps for countries operating in this Transition Category when they differ greatly in both vulnerability and size. For example, should the cap on Bangladesh, with a population of 150M and with an average of 10M people affected by climate related disasters per year and a GNI/capita of less than \$1000 be the same as that for Barbados with a population of 300,000, an average of 1,000 people affected by climate related disasters per year and a GNI/capita of over \$12,000?

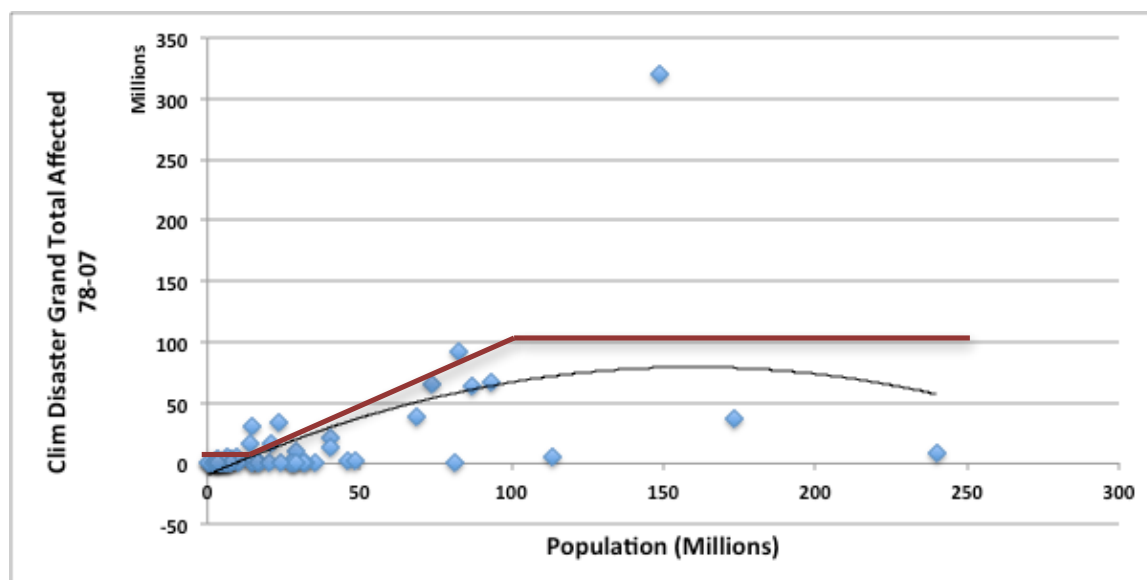


Figure 2: Relationship between current climate risk within a country and population (blue dots). The red lines shows the suggested effective population used to calculate maximum allocations based on population size.

If the number of people affected by climate related disasters in the ‘recent’ past⁵ is used as a current estimate of the level of risk being faced by a country, then the risk does scale approximately with the country population, but with huge variation (Figure 2). So much so, that population cannot be used as a simple scalar for the maximum allocation as a few countries would receive the vast bulk of the available resources. The best compromise appears to be to limit the allocation to the most populous countries (they can also access the Transformative Category) while ensuring the least populous countries can still undertake substantial adaptation

⁵ Here data from the CRED data-base on disasters is used as the basis of the calculations. Climate related disasters include floods, droughts, storms, heat & cold spells and wildfires. “People affected” includes people made homeless or people whose livelihoods are significantly affected by the disaster. ‘People affected’ is used rather than mortality as the deaths are fewer and more clustered leading to a much more stochastic signal. The use of deaths would also work to the disadvantage of those countries that have been able to significantly reduce mortalities over recent years. In these analyses ‘people affected’ is based on the period 1978-2007.

efforts and thus increase overall ambition. If the allocation is scaled to saturate at 100 million population (see Figure 1) and all countries below the median population (14.3M) are allocated as if at that population, the spread of allocations, assuming a total sum of about \$5billion for this category, the upper limits of would range from \$260M to \$40M with eight countries receiving \$200M or more and the 30 smallest countries \$40M (see Annex 2). With an allocation of only \$4billion to this category there will be an element of impact-based allocation. These numbers would vary according to just which countries choose this category.

2.1.3 Transformative Category

This category would have a replenishment cycle of \$4billion with only a single proposal per country considered during the first replenishment cycle with a maximum allocation of \$500M and minimum \$100M. Proposals would be subjected to the criteria for transformational adaptation as described in the main text, and would have to provide well documented analyses of the expected benefits including quantitative measures of reduced vulnerability and losses, and if possible such measures as saved wealth and reduced loss of DALYs. A two-step proposal process is recommended where the Board may suggest improvements or a transitional category allocation as a first step if they assess the proposal is assessed as needing more work or it is uncompetitive. The Board may also wish to consider a wider range of financial arrangements such as trust funds to hold finance until appropriate transformative actions can be undertaken, and agreements to consider allocations in future replenishment cycles providing satisfactory progress is demonstrated. Proposals to this category would not preclude other proposals in the same replenishment cycle to the Transitional Category through a country's NDA.

2.1.4 Vulnerability Scores

Until now no major adaptation fund has used vulnerability, or even population, based approaches to allocating access (Box 2 Adaptation). The idea behind the categories proposed here is to minimize the use of vulnerability scores in allocation as any vulnerability score will remain controversial. Special Consideration Countries are assumed to be highly and equally vulnerable and their population size is not taken into account. The Special Consideration Countries category is primarily to assist countries to develop capacity to meet the standards of preparation and project management.

The Transitional Category may be scaled by population size, but not by a vulnerability formula. The competitiveness of the proposal will be assessed on the vulnerabilities that will be trackled in the project. Obviously countries could use existing or new vulnerability indices as part of that argument.

Transformational Category countries are not capped by population or vulnerability, but simply by the quality of their project and what it seeks to deliver, which will have to incorporate vulnerability and capacity as part of the justification.

Box 1: Lessons from other adaptation funds

The first point to note is that most existing funds were established by decisions made under very differing circumstances. Most existing Funds have chosen not to elect a formal, differentiated allocation system taking into account country differences. For example:

The GEF STAR scheme excludes adaptation, but some lessons may be derived from the Biodiversity and Land Degradation tranches, which do have allocation formulas;

Adaptation Fund has set a \$10M cap per country and judges proposals on the merit of actions proposed and need. There is no need to estimate incrementality but only to have adaptation as the primary focus;

PPCR used a data-guided expert selection process to choose the pilot countries but then decided to make roughly equal allocations to those countries despite large variation in size and capacity.

An analysis of recent allocations show that adaptation funds have tended to flow to populous countries that are subject to frequent climate related disasters.

2.2 Evaluation of proposals

All adaptation proposals – independently of the category of countries they belong to – will need to be evaluated based on a set of criteria. The following table provides an overview of proposed indicators and a first evaluation of their appropriateness.⁶

Table 1: Adaptation - Overview and evaluation of proposed indicators

	Meaningful Indicator	Practical to measure and simple to apply	Acceptable to proposer
Effectiveness			
Total livelihoods made more resilient	✓✓✓	✓✓	✓✓✓
Scale	✓✓✓	✓✓	✓✓✓
Replicability	✓✓✓	✓✓	✓✓✓
Sustainability	✓✓✓	✓	✓✓
Efficiency			
Cost per livelihood made more resilient	✓✓	✓	✓✓
Suitability for private investment	✓✓	✓✓	✓
Contribution to paradigm shift			
Ambition of proposal	✓✓✓	✓✓✓	✓✓
Ambition of country	✓✓	✓✓	XX
Fit to National Adaptation Plan	✓✓✓	✓✓	✓✓
Activity embedded in development strategy	✓✓✓	✓✓	✓✓
Prevention of lock-in / maladaptation	✓✓✓	✓✓	✓✓✓

✓✓✓ meets criteria fully
 ✓✓ meets criteria mostly
 ✓ meets criteria partly
 ✓/X unclear/depends on further detail
 X doesn't meet criteria to moderate extent
 XX doesn't meet criteria to medium extent
 XXX doesn't meet criteria at all

2.3 Testing pre-conditions for transformative change in competitive window

Once a proposal for the competitive tranche has been identified as transformative in concept, the next test is to assess whether the concept can be turned into action on the ground. The checklist can be evaluated as a scoring system, with 0 for failure to meet the precondition; 1 for meeting it at a base level; and 2 for meeting it at a high level. A proposal should have no zero scores at approval and the total score can be used as part of the overall quality assessment.

Box 2: Suggested checklist of preconditions necessary for transformative change

Fit with national priorities and ambitions

- National plans (e.g. NAPs), explicitly identify situations where transformational change might be needed and is feasible;
- Evidence that alternatives to transformational change have been considered, as have alternative forms of transformational change;
- The plans identify full range of stakeholders affected by the changes and actors instrumental in achieving the changes, including the private sector;

Preparations for decision process

⁶ See Annex 3 for key considerations for indicator selection.

- The inputs, concerns and views of the stakeholders have been part of an inclusive decision making process to adopt the incremental adaptation plan;
- There is an inclusive decision process to select between the options and to decide on the conditions under which to initiate the transformation process;
- That an independent facilitation process and dispute resolution process were in place during the decision making process;
- There was a process to assess that identified options for transformational change are socially acceptable and economically feasible and that the opportunities and incentives needed to achieve them have been identified;

Preparations for implementation

- A process or plan exists to identify and/or build capacity to increase familiarity with skills related to building shared visions, adaptive management, etc.;
- Demonstrable leadership in adaptation planning and implementation and plans for its maintenance;
- Plans identify major drivers or extreme events that will focus attention and catalyze action;

Preparations for adaptive learning and sustainability of transformative change

- Explicit plans for scaling up any initial trials and successes
 - Plans to enable institutions to learn and change;
 - Plans for, public and private sector funding of components of the transformation; and
 - Plans for monitoring and evaluating outcomes and a decision process for implementing adjustments to existing plans
-

Annex 1: Summary of country categories for resource allocation for adaptation

The tables below present a set of scenarios for different resource mobilisation scenarios. They are based on estimates of the number of countries taking part in each category and the average size of each proposal.

Table 2: Summary of Categories – First four-year replenishment cycle - \$4 billion total for adaptation

Category	Special Consideration	Transitional	Transformative
Initial allocation in a four-year replenishment cycle	\$1.5billion	\$1.5billion	\$1billion
Estimated number of countries participating	c. 90	c. 50	c. 15 - 25
Maximum / Minimum proposal size	\$20M / \$5M	\$80M / \$20M	\$200M / \$50M
Estimated number of proposals submitted to the Board / Secretariat over a replenishment cycle	100-200	50 - 80	15 - 25
Number successful proposals	100	40-60	5 - 10

Table 3: Summary of Categories – First four-year replenishment cycle - \$10billion total for adaptation

Category	Special Consideration	Transitional	Transformative
Initial allocation in a four-year replenishment cycle	\$2billion	\$4billion	\$4billion
Estimated number of countries participating	c. 90	c. 50	c. 15 - 25
Maximum / Minimum proposal size	\$20M / \$5M	\$100M / \$20M	\$500M / \$100M
Estimated number of proposals submitted to the Board / Secretariat over a replenishment cycle	100 - 200	100 - 150	15 - 25
Number successful proposals	100	50 - 100	15 - 25

Table 4: Summary of Categories – First four-year replenishment cycle - \$16 billion total for adaptation

Category	Special Consideration	Transitional	Transformative
Initial allocation in a four-year replenishment cycle	\$2billion	\$8billion	\$6billion
Estimated number of countries participating	c. 90	c. 50	c. 15 - 25
Maximum / Minimum proposal size	\$30M / \$5M	\$150M / \$20M	\$700M / \$100M
Estimated number of proposals submitted to the Board / Secretariat over a replenishment cycle	100-200	100 - 150	15 - 25
Number successful proposals	100 - 150	50-100	15 - 20

Table 5: Summary of Categories – A subsequent four-year replenishment cycle - \$30billion total for adaptation

Category	Special Consideration	Transitional	Transformative
Initial allocation in a four-year replenishment cycle	\$3billion	\$12billion	\$15billion
Estimated number of countries participating	c. 60	c. 80	c. 40
Maximum / Minimum proposal size	\$50M / \$10M	\$200M / \$40M	\$1,000M / \$100M
Estimated number of proposals to the Board / Secretariat over a replenishment cycle	100 – 200	100 - 200	40
Number successful proposals	150	100 - 150	20 – 40

Annex 2: Example of population scaled allocations

(assuming competition for a \$3billion tranche)

Country	Population (M)	With Dual Caps	Allocation (\$M)
Bangladesh	148.69	100.0	265
Indonesia	239.87	100.0	265
Mexico	113.42	100.0	265
Pakistan	173.59	100.0	265
Philippines	93.26	93.3	245
Viet Nam	86.94	86.9	230
Ethiopia	82.95	82.9	220
Egypt	81.12	81.1	215
Iran	73.97	74.0	195
Thailand	69.12	69.1	185
Korea, Republic	48.88	48.9	130
Colombia	46.29	46.3	125
Kenya	40.51	40.5	110
Argentina	40.41	40.4	110
Algeria	35.47	35.5	95
Iraq	32.03	32.0	85
Morocco	31.95	32.0	85
Peru	29.08	29.1	80
Venezuela	28.83	28.8	80
Malaysia	28.40	28.4	75
Uzbekistan	28.16	28.2	75
Saudi Arabia	27.45	27.4	75
Yemen	24.05	24.1	65
Mozambique	23.39	23.4	65
Sri Lanka	20.86	20.9	55
Syrian Arab Rep	20.45	20.4	55
Chile	17.11	17.1	45
Kazakhstan	16.32	16.3	45
Malawi	14.90	14.9	40
Ecuador	14.46	14.5	40
Guatemala	14.39	14.4	40
Cambodia	14.14	14.3	40
Albania	3.20	14.3	40
Armenia	3.09	14.3	40
Azerbaijan	9.05	14.3	40

Country	Population (M)	With Dual Caps	Allocation (\$M)
Bhutan	0.73	14.3	40
Bolivia	9.93	14.3	40
Bosnia & Herzegovina	3.76	14.3	40
Costa Rica	4.66	14.3	40
Cyprus	1.10	14.3	40
Djibouti	0.89	14.3	40
El Salvador	6.19	14.3	40
Georgia	4.45	14.3	40
Honduras	7.60	14.3	40
Israel	7.62	14.3	40
Jordan	6.05	14.3	40
Kuwait	2.74	14.3	40
Laos	6.20	14.3	40
Lebanon	4.23	14.3	40
Libya	6.36	14.3	40
Macedonia	2.06	14.3	40
Malta	0.41	14.3	40
Mongolia	2.76	14.3	40
Nicaragua	5.79	14.3	40
Oman	2.78	14.3	40
Panama	3.52	14.3	40
Paraguay	6.45	14.3	40
Qatar	1.76	14.3	40
Tunisia	10.55	14.3	40
Turkmenistan	5.04	14.3	40
UAE	7.51	14.3	40
Uruguay	3.36	14.3	40
Total	1,900		5,165

Note on country inclusion in the Transitional Category:

Assumptions:

- Small block of countries in the first replenishment cycle elect the Transition Category rather than the Special Consideration Category (Bangladesh, Cambodia, Ethiopia, Kenya, Malawi, Mozambique, based on their experience in adaptation activities)
- HICs excluded from the GCF (maybe access to Transformational Category could be negotiated with the Board)
- Brazil, China, India & South Africa are dealt with separately by the Board.